

ICPS newsletter®

Privatization is no panacea for Ukraine's coal industry

Despite some successful coal industry privatization in the past, today private sector involvement is premature. As long as the Government has not put together a new strategy to develop this sector and insured that it will be carried out, the consequences of further privatization could prove undesirable for both investors and the state. This was the conclusion drawn by participants in a roundtable called "Can privatization solve the problems of Ukraine's coal industry?" According to experts, privatization needs to be viewed as one of several elements in reforming the sector

Active debate of the Government's intended reviews of recent privatization deals has drawn public attention to two pertinent questions: Can privatization be an effective instrument of reform? What should government policies on privatizing the coal sector be? These questions became the focus of a roundtable called "Can privatization solve the problems of Ukraine's coal industry?" that was organized by Management by Public Intercourse, an agency, and the International Centre for Policy Studies on 4 April 2005.

The debate drew participants from central executive bodies, the Verkhovna Rada and privatized coal companies, academics, independent experts, and journalists from major media. The positions of stakeholders were represented by Oleksandr Chmyrenko, director of the Donetsk Fuel and Energy Company, an association of enterprises; Viacheslav Krasnyk, deputy director of the Science and Technology Department and director of the Sector Program Development Department of the Coal Industry Department under the Ministry of Fuel and Energy; Yuriy Myroshnychenko, Energy Project Coordinator for the International Bank for Reconstruction and Development (World Bank); and Volodymyr Saprykin, Economic Program Director of the Razumkov Center for Economic and Political Studies.

The costs and benefits of privatization

Today, private coal mines and mines leased to private businesses control over 35% of the extraction business in Ukraine. Typical private mines are VAT KrasnodonVuhillia, VAT Shakhta Komsomolets Donbasu, VAT PavlohradVuhillia, VAT Shakhta

Chervonoarmiyska-Zakhidna №1. The Zasiadko mine is leased. According to those at the roundtable, Ukraine's private mines are relatively successful. Mr. Krasnyk, the representative of the Fuel and Energy Ministry, noted that the key factor behind success was the high industrial potential of privatized mines that had public investment before privatization and were a part of vertically integrated holdings that provided sales markets. However, he also said that further privatization would not be so successful because of significant depreciation among those mines that are still in state ownership.

ICPS economist Ildar Gazizullin said that positive impact of privatizing the coal sector includes rising output, higher extraction rates and investment in the coal industry. At the same time, he said, some of the privatization goals were not achieved: individual privatized companies continue to depend on state support; the sector was cherry-picked, that is, the most financially attractive companies were privatized, rather than those needing investment; and some owners continue to understate profitability by selling coal at below-market prices within the same financial-industrial group, what is known as "transfer pricing."

Experts recommend delaying privatization

The Ministry's Viacheslav Krasnyk admitted that the concepts of coal development currently in circulation are outdated. And since there is no proper concept, it makes little sense to simply sell off coal mines. "First, we need to resolve all the environmental and labor safety problems that tend to be overlooked in mass privatization," he added.

The Razumkov Center's Volodymyr Saprykin said, "Privatization as a simple change of owners—without proper legislation or proper market conditions—will not yield anything. Moreover, privatization cannot be a panacea. It's just one of several approaches to restructuring our coal industry."

This idea was supported by the IBRD's Yuriy Myroshnychenko, who recommended an integrated approach to resolve problems in the coal industry. He suggested four key areas: sector management, pricing, providing state support, and resolving social and environmental issues. "Privatizing the coal sector should be viewed in the context of these four reform components," said Mr. Myroshnychenko.

The coal sector needs new policies

According to independent experts, it is imperative that the quality of government policy-making in the sector be improved. Mr. Saprykin said that a coal industry development program should become a part of the overall energy strategy for the fuel and energy complex, something Ukraine does not have at the moment. He was positive about the "Vuhillia Ukrayiny" program, although he noted that it does not reflect current realities. According to the Razumkov Center expert, the program should be shortened and made more comprehensible. The revised program should anticipate that revenues from the privatization of coal companies will be funneled back into these coal companies. "If money is transferred to the State Budget," he said, "we can continue restructuring the coal industry for a long time, but we won't get the same effect. And we will lose years in the process."

According to Oleksandr Chmyrenko of the Donetsk Fuel and Energy Co., global privatization experience should be tapped into: it generally divides coal companies into three groups. The first consists of companies that can be profitable under certain circumstances, for example, as part of vertically integrated holdings. The second group includes unprofitable companies that are critical to the country's

energy security. These should remain in state hands. The third group consists of unprofitable companies that need to be

closed down in the short or long term, if the latter is necessary in order to ensure proper employment for redundant workers. ■

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New! A Handbook on How to Hold Public Consultations

A politician's public image is not restricted to appearances on TV screens. Publicity means, first of all, the open work of the Government and the possibility for voters to participate in the policy-making process. Contemporary Ukrainian politicians and ordinary civil servants have inherited the old soviet approach to government: covertness. So they need to learn how to be open. A new handbook published by ICPS is dedicated to organizing consultations with the general public and integrating the results of those consultations into the policy-making process

In order to strengthen democracy and improve the quality of Government policy in Ukraine, a key task is for government officials and civil servants alike to develop approaches and processes that engage the public and consider a variety of opinions and interests. Such skills help a Government to make more effective decisions by understanding stakeholder needs and interests, to better predict and account for voter reactions while policies are still being developed, and to ensure transparent decision-making. In their turn, voters get:

- an opportunity to participate in the formulation of government policies;
- higher-quality policies and public services that meet their needs better;
- an understanding of the costs of specific choices and their consequences.

How to launch a dialog between state and society

The Handbook on Public Consultations provides practical instructions on how to strengthen partner relations between government bodies and voters, and how to organize public consultations with stakeholders during the policy-making process.

This handbook describes principles for carrying out consultations and recommends how to organize consultations with stakeholders. It introduces different types of consultations used by government bodies to involve the public. Practical examples demonstrate the area where each specific method and form of public consultation can be used, how the actual consultation is organized, and advantages and drawbacks to each choice. In addition, the handbook talks about the analysis and evaluation of proposals and recommendations submitted during public

consultations and describes the mechanisms for government bodies to report to stakeholders on the outcome and impact of a given consultation.

The handbook consists of three sections:

- Section I explains what public consultations are and why they are used.
- The objective of this section is to familiarize civil servants with the main kinds of consultations that government bodies can use to involve stakeholders. As public consultations are the key element in making policies that are agreed and publicly accepted, this section shows how government bodies can benefit from involving the public in their decision-making process.
- Section II describes the process of organizing and holding consultations.

This section provides a step-by-step description of the consultative process with comments and tips on how to organize the process better and achieve identified goals for those who are tasked with organizing and holding such consultations.

- Section III offers practical recommendations and a choice of public consultation approaches.

This section provides brief definitions, lists of key tasks, an analysis of costs and benefits, examples of how different consultation methods are applied by government bodies in international practice. It also offers practical tools for evaluating the outcomes of public consultations.

Global experience, local application

This manual uses the experience of the Governments of Canada, New Zealand and

EU member states, and of EU institutions in involving the public in their policy-making processes. It also uses the practical experience of ICPS in organizing consultations it carried out during January–October 2004 under the “Second Opinions and the Institutionalization of Public Consultation in the Policy Development Process in Ukraine” project.

The handbook is one of the outputs of the project that aim to help the Ukrainian Government improve the quality of its engagement with voters in policy-making. The project included a pilot application of public policy procedures in Ukraine: a series of consultations with stakeholders on government policy priorities following the rules and procedures used by Governments in mature democracies.

The project fielded public debate on three key topics: bringing personal incomes out of the shadow, improving the business environment and reforming the system of blanket privileges. This made it possible to analyze policies and possible options in each of these areas, to elicit stakeholder opinions on related problems, their roots and possible solutions, and to prepare recommendations for further steps that the Government might take to improve the situation in these areas.

The project was implemented with advisory support from Canadian specialists who have extensive hands-on experience in policy analysis and the organization of the consultative process for the Government of Canada: M. Paul Brown, Professor, School of Public Administration, Dalhousie University, Halifax, Canada; Bohdan A. Krawchenko, Vice Rector, National Academy of Public Administration, Office of the President of Ukraine, Kyiv; and Larissa Y. Lozowchuk, Deputy Government Secretary, Saskatchewan, Canada. ■

The Handbook and other materials from the “Second Opinions and the Institutionalization of Public Consultation in the Policy Development Process in Ukraine” project can be viewed on the internet at <http://www.icps.kiev.ua/eng/project.html?pid=27>. For additional information, contact Andriy Bega by telephone at (380-44) 236-4477 or via e-mail at abega@icps.kiev.ua.

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